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**Unexplained Side of Resources:**  
Fellowships, Assistantships, 529 Plans, etc.

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# Overview

- Statutory Definitions:
  - Income
    - Adjusted Gross Income
    - Untaxed income and benefits
    - Exclusions
  - Other Financial Assistance
- Earnings from Work
- Internal Revenue Code





## Before TRA 1997

- Qualified Scholarships
- Exclusions for Series EE US Savings Bonds
- Deduction for Education Expenses
- Income Exclusion for Employer-provided Assistance
- Student Loan Forgiveness
- Qualified State Tuition Programs





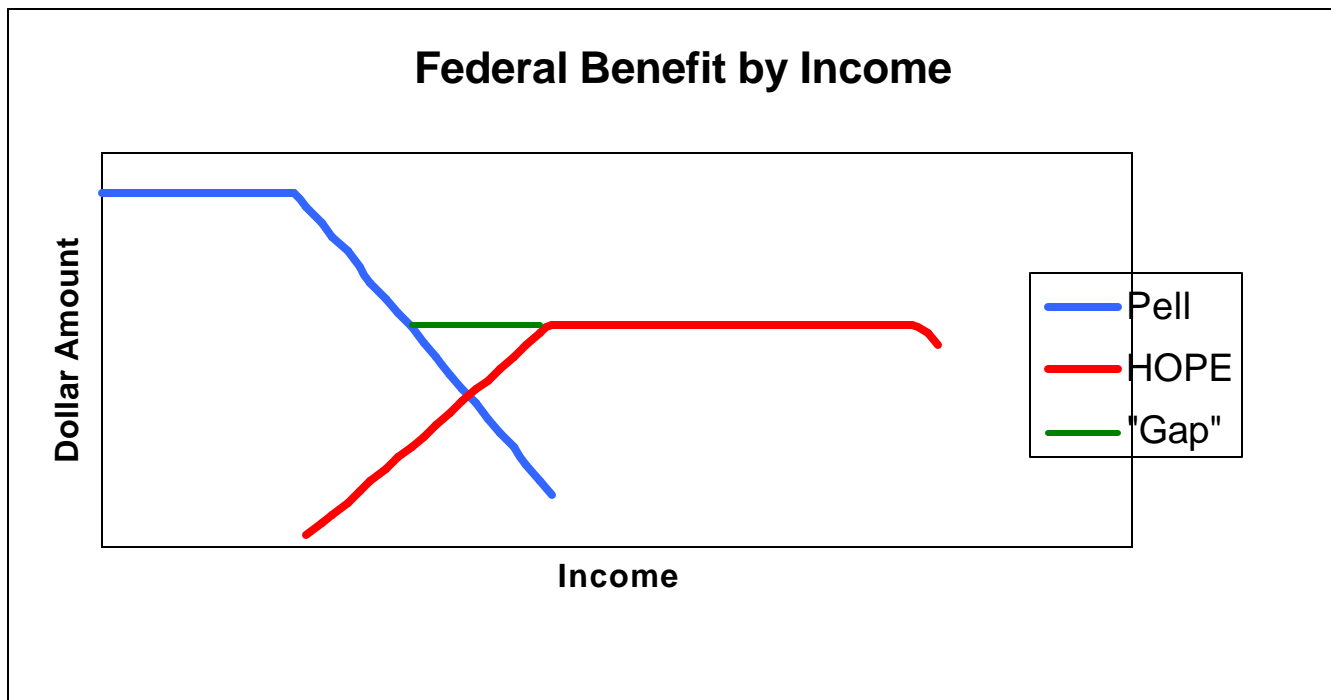
# Policy Development

- HOPE Scholarship
  - \$1,500 Refundable Tax Credit
  - Enrolled at Least Half-time
  - First Two Years of College
  - Remain Drug-free
  - Maintain a "B" Average
- Tax Deduction
  - First \$5,000 of Expenses (\$10,000 in 2003)
  - Any Postsecondary Education





# Policy Development (cont'd)





# Policy Development (cont'd)

- HOPE Tax Credit
  - \$1,500 Tax Credit for Educational Expenses (100% of First \$1,000, 50% of Second \$1,000)
- Lifetime Learning Tax Credit
  - 20% of the First \$5,000 (\$10,000 in 2003)
- Federal Pell Grants
  - Increase Maximum award by \$300
  - Expand Eligibility for Independent Students
- Part F Need Analysis





# Economic Growth & Tax Relief Reconciliation Act of 2001

- **Deduction for Educational Expenses**
  - “Above the line”
  - Income limited
  - Annual maximum – \$3,000/\$4,000/\$2,000
- **Student Loan Interest Deduction**
  - Eliminates 60-month rule
  - Higher income phase-outs
  - Any interest paid
- **Employer-Provided Educational Assistance**
  - Graduate/professional education
  - Permanent exclusion





# Economic Growth & Tax Relief Reconciliation Act of 2001 (cont'd)

- Marriage Penalty Relief
  - Lower marginal rates
  - Earned Income Tax Credit
- HOPE/Lifetime Learning Tax Credit
  - Coordinate with other tax benefits
- Education IRAs
  - \$2,000 annual contribution limit
  - Contributions from employers/others
  - K-12 educational expenses
  - Higher income phase-outs
  - Coordinate other savings plans benefits







# Economic Growth & Tax Relief Reconciliation Act of 2001 (cont'd)

- Qualified Tuition Programs – Section 529
  - Tax-free distributions
  - Pre-paid plans developed by educational institutions
  - Expanded eligible expenses
  - Increased flexibility
  - Compatible with HOPE/Lifetime Learning tax credits





# General Rules

- No financial aid can be included in the calculation of the EFC. However, whether it is taxed or not does not affect whether it is treated as a resource or EFA
- If an award is considered employment according to federal or state laws or regulations, it must be treated as employment for purposes of determining eligibility for Title IV aid





# Real Life

## Tax Credit Beneficiaries Are “Held Harmless”

- Federal Need Analysis Excludes Amount(s) From the Calculation of “Total Income”
  - Reported on 2002-2003 FAFSA “Worksheet C”
  - Amount(s) Not Included as “Untaxed Income and Benefits”
- Excludes as a Resource/Estimated Financial Assistance





## Real Life (cont'd)

### Work: Income or Other Financial Assistance?

- Need-based employment
- Non need-based employment
- An educational benefit that is contingent upon enrollment (except non need-based employment)
- Fellowships and assistantships
- Scholarships with work/service component





# Clarification: Fellowships & Assistantships

- Award (or portion of award) that is treated as employment and **not** based upon need is:
  - **not** considered a resource or EFA;
  - treated as income just like any other employment earnings of the student
    - that income should be included in the AGI on the student's next financial aid application for inclusion in the calculation of the EFC





# Clarification: Fellowships & Assistantships (cont'd)

- Award (or portion of award) that is treated as employment and **is** based upon need:
  - **is** considered a resource or EFA;
  - if included in AGI, then list on Worksheet C as exclusion to income for calculation of the EFC





# Clarification: Fellowships & Assistantships (cont'd)

- Award (or portion of award) that is not employment (regardless of whether it was based on need):
  - **is** considered a resource or EFA;
  - if included in AGI, then list on Worksheet C as exclusion to income for calculation of the EFC





## Special Note

- 2002-2003 FAFSA Worksheet C is not clear regarding fellowship and assistantship amounts that were non need-based employment. Those should not be included on the worksheet as exclusion to income
  - Such amounts that were correctly not treated as resources and EFA in the prior year need to remain as income that will be part of the 2002-2003 EFC calculation. As such, they should not be included in Worksheet C as exclusions from income.
- Schools may elect to review line items #46 and #80 (ISIR fields #51 and #85) to ensure correct information is reported. Specifically, exclusions in those items may mistakenly include earnings not treated as resources and EFA in the prior year.







## Additional Information

[www.house.gov/rules/1836\\_sum.pdf](http://www.house.gov/rules/1836_sum.pdf)

- Summary of the *Economic Growth and Tax Relief Reconciliation Act of 2001*

[www.irs.gov/forms\\_pubs/pubs.html](http://www.irs.gov/forms_pubs/pubs.html)

- IRS Publication 520, *Scholarships and Fellowships*
- IRS Publication 590, *Individual Retirement Arrangements (IRAs)*
- IRS Publication 970, *Tax Benefits for Higher Education*





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